

# The Afterpay Bubble

15/07/2020 | Marcus Padley, Marcus Today

Are you a sensible investor? Then you are almost certainly having a few thoughts about technology stocks, including regret, regret at not holding technology stocks, and regret at not holding **Afterpay** which is up 856% from the low in March and up 38% in 9 trading days.

You are probably beginning to question whether you are sensible, or stupid. It is hard to know. Is it sensible or stupid to buy or hold **Afterpay** on a PE of minus 454x this year, and 237x on 2022 forecasts.

And there are other stocks making you look stupid. Like **XRO** on a PE of 370x and 98x on 2022 forecasts, **REA** on 52x and 35x 2022 earnings in the middle of a housing slump, **WTC** on 93x and 50x on 2022 earnings forecasts, **NXT** on minus 305x and 231x 2022 forecasts, **ALU** on 70x and 42x 2022 forecasts and **APX** on 56x and 32x 2022 forecasts.

But this is not about price, PE, future earnings or intrinsic value, it is about not missing out on easy gains, it is about exploiting extraordinary volatility, and the momentum behind that opportunity is overwhelming the rest of the market, it is overwhelming the virus concerns, and it has taken the US stock market to all-time highs when logic suggests the equity market should be cowed by a global economic disaster.

Some numbers:

| Code | Market Cap \$bn | Price  | Average ROE | Average PE | Earnings Growth | Dividend Growth | Gross Yield | 100% Frank | Intrinsic Value | Price v. Intrinsic | Broker Target | Price v. Target |
|------|-----------------|--------|-------------|------------|-----------------|-----------------|-------------|------------|-----------------|--------------------|---------------|-----------------|
| APT  | 19.43           | 7231c  | -1%         | -2915.8x   | +154.4%         |                 | 0.0%        | Zero       |                 | -                  | 6196c         | +16.7%          |
| REA  | 13.83           | 10475c | 30%         | 47.9x      | +4.0%           | +4.0%           | 1.4%        | Yes        | 4485c           | +134%              | 10095c        | +3.8%           |
| XRO  | 13.27           | 9318c  | 4%          | 1278.9x    | +245.9%         |                 | 0.0%        | Zero       | 601c            | +1451%             | 7588c         | +22.8%          |
| CPU  | 7.19            | 1327c  | 24%         | 15.6x      | -4.4%           | -9.0%           | 3.8%        | 30%        | 1303c           | +2%                | 1480c         | -10.3%          |
| WTC  | 6.60            | 2034c  | 20%         | 95.0x      | +23.8%          | +25.1%          | 0.3%        | Yes        | 491c            | +315%              | 2188c         | -7.0%           |
| NXT  | 5.20            | 1141c  | 0%          | 16088.5x   | -3.8%           |                 | 0.0%        | Zero       |                 | -                  | 1066c         | +7.1%           |
| ALU  | 4.45            | 3390c  | 28%         | 61.8x      | +16.1%          | +20.6%          | 1.4%        | Zero       | 1392c           | +144%              | 3505c         | -3.3%           |
| APX  | 4.44            | 3641c  | 23%         | 55.1x      | +25.1%          | +23.5%          | 0.4%        | 50%        | 1458c           | +150%              | 3328c         | +9.4%           |
| CAR  | 4.41            | 1791c  | 43%         | 33.6x      | +2.9%           | +1.5%           | 3.3%        | Yes        | 1164c           | +54%               | 1717c         | +4.3%           |
| TNE  | 2.80            | 874c   | 43%         | 43.3x      | +11.7%          | +10.1%          | 1.8%        | 60%        | 422c            | +107%              | 877c          | -0.4%           |
| PME  | 2.63            | 2527c  | 37%         | 111.1x     | +34.5%          | +38.2%          | 0.7%        | Yes        | 682c            | +271%              | 2856c         | -11.5%          |
| PPH  | 2.40            | 876c   | 17%         | 64.9x      | +41.5%          |                 | 0.0%        | Zero       | 284c            | +209%              | 793c          | +10.5%          |
| LNK  | 2.19            | 413c   | 11%         | 13.9x      | -11.1%          | -8.4%           | 4.2%        | Yes        | 536c            | -23%               | 488c          | -15.4%          |
| MP1  | 2.25            | 1465c  | -32%        | -68.6x     | -8.8%           |                 | 0.0%        | Zero       |                 | -                  | 1398c         | +4.8%           |
| IRE  | 2.08            | 1073c  | 17%         | 25.2x      | +1.9%           | +0.8%           | 4.8%        | 40%        | 924c            | +16%               | 1215c         | -11.7%          |
| DHG  | 1.84            | 315c   | 3%          | 72.7x      | -10.9%          | -22.1%          | 1.4%        | Yes        |                 | -                  | 306c          | +2.9%           |
| KGN  | 1.79            | 1729c  | 33%         | 67.4x      | +32.9%          | +27.5%          | 1.8%        | Yes        | 839c            | +106%              | 1283c         | +34.8%          |
| CDA  | 1.42            | 785c   | 25%         | 24.6x      | +20.8%          | +35.6%          | 3.3%        | Yes        | 854c            | -8%                | 855c          | -8.2%           |
| EML  | 1.21            | 335c   | 8%          | 37.8x      | +265.1%         |                 | 0.0%        | Zero       | 172c            | +95%               | 424c          | -21.0%          |
| BVS  | 1.12            | 456c   | 18%         | 28.0x      | +11.7%          | +12.1%          | 2.4%        | Zero       | 410c            | +11%               | 549c          | -16.9%          |
| NEA  | 1.06            | 234c   | -29%        | -52.9x     | +34.9%          |                 | 0.0%        | Zero       |                 | -                  | 275c          | -14.9%          |
| WEB  | 1.03            | 302c   | 10%         | 12.2x      | -101.8%         | -53.8%          | 2.1%        | Yes        |                 | -                  | 391c          | -22.8%          |

I hate finger-waggers. I hate the pious value based investors that miss out on everything because they are long-term and want to see "value" before they buy, but this rally is offending not just them.

These stocks are being traded as a bloc by the herd. It is not discriminating between really very diverse companies. They are all flying because the US technology sector is flying, and because the alternative investments in Australia are not sexy.

Banks, Staples, Healthcare, Resources. Slow going by comparison. So technology it is, globally, for a quick buck. Even the Chinese market is flying on short term speculative retail buying.

Unfortunately for most sensible (or stupid?) investors, the most compelling argument for an 'investment' in these stocks is momentum. This is a herd phenomenon.

The good news, for research-based, value discerning, Australian fund managers, is that this is a small sector in Australia, otherwise they would be under-performing terribly because of their long-standing, traditional, proven investment techniques that would almost certainly dictate that they do not hold them. But in the US, this is a massive sector, and it too is being pursued higher because S&P 500 benchmarked fund managers can't afford to ignore a massive sector with momentum, whatever the price.

Are they overvalued? I ask you this.

Do you think the CEOs and shareholders of these companies think they are undervalued? No. They are punching the air in delight. And that means one thing. And the APT Management know it. That's why they are raising capital, and that's why they are selling some stock.

#### **AS FOR THE BROKERS - don't be too impressed.**

This week's high profile, post capital-raising, \$101 plus valuation on APT, up from a woefully wrong \$36, along with all the other amazing broker valuations, optimism and target prices are all part of a big financial game. And you should not be surprised.

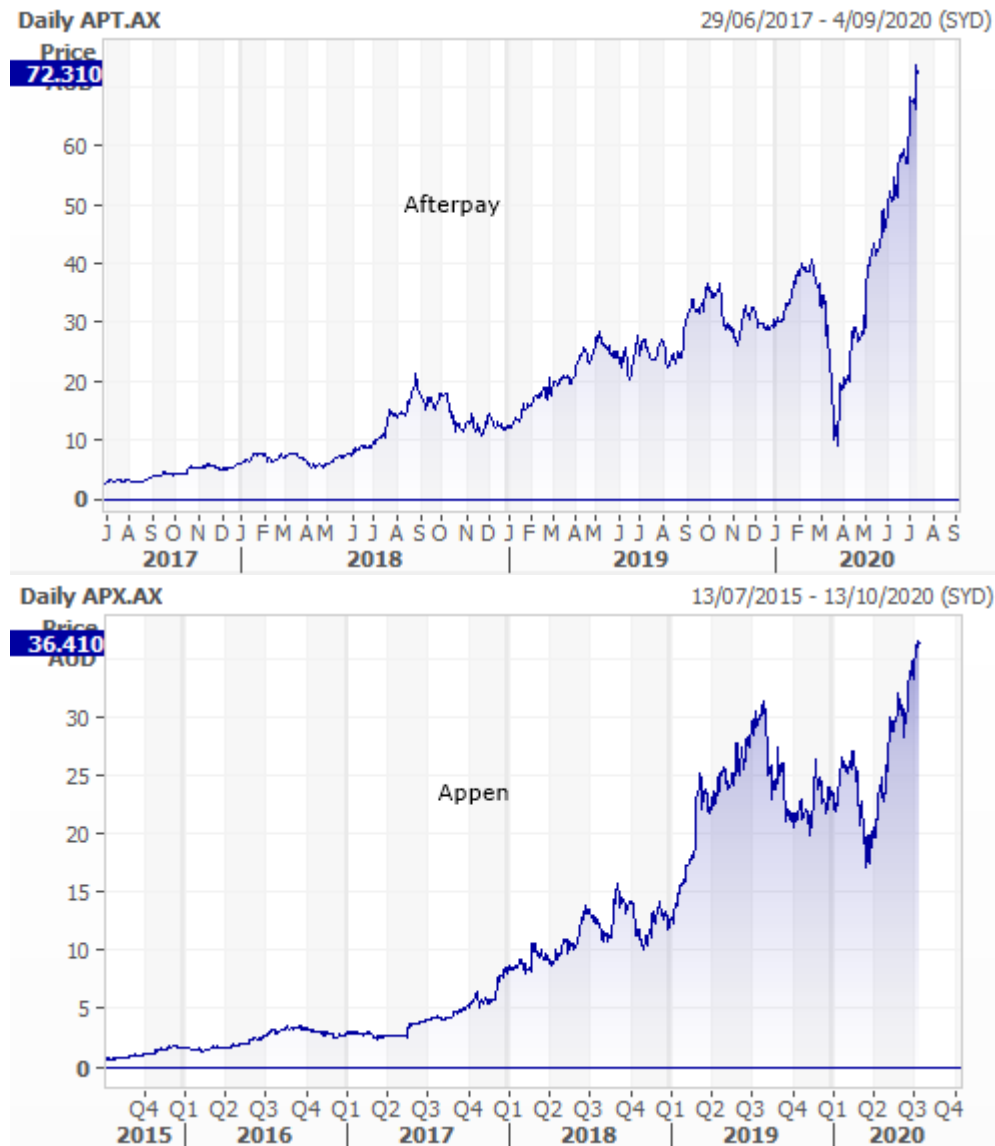
This is how broking works. "Get in the game" would be the instruction from the corporate department to the analyst, from the CEO to the analyst, from the dealers to the analyst. Print that click bait research! If they don't they will miss out on some of the best money making opportunities brokers have had in years. Making trades in a high volume frenzy, and raising capital on the back of flying share prices.

This is not about getting it right, its about having research that attracts attention. Its about attracting trades and its about endearing yourself to companies that are almost certainly going to be doing further capital raisings at these extraordinary share prices.

You have to be at the table when the deals come through, you have to be on the phone to the management of these companies telling them this is a once in a lifetime opportunity to firm up the balance sheet once and for all, to lock in the next five years of funding.

Its worth millions in corporate fees. But you won't get the deal with a \$36 target price. You won't get the deal saying its expensive. You won't get the deal saying sell. It's a game.

## SOME CHARTS





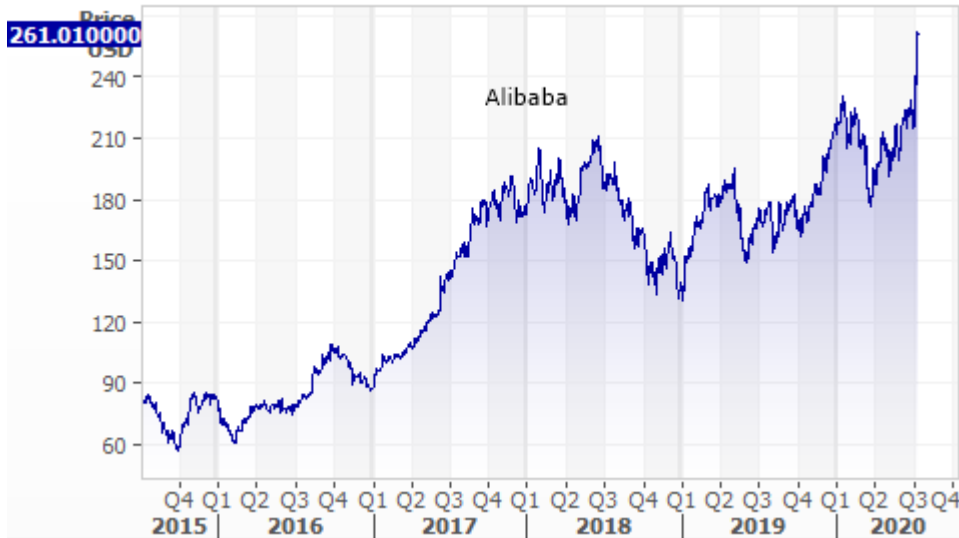
Daily GOOGL.O

13/07/2015 - 13/10/2020 (EST)



Daily BABA.K

13/07/2015 - 13/10/2020 (NYC)



Daily 0700.HK

13/07/2015 - 12/10/2020 (HKG)





And the not as hot to trot charts:





Even my colleague Henry at Marcus Today, a man who likes to do 200 miles an hour with his hair on fire, has started talking about a tech bubble. Because he, like me, has been through one before.

There are similarities. In the 2000 Tech Boom, as now, any finger-wagging cost you a fortune in missed opportunity.

And there are differences. This time there are some very substantial revenue, earnings and profits backing these companies, in 2000 there was nothing but wind.

But even now, even when a company is real, and profitable, there is a price for everything, whatever the prospects, quality, growth potential.

A Porsche is a great car, just as **Afterpay** is a great company, but you wouldn't pay \$1,000,000 for a Porsche.

You also don't pay the eventual price for a house that is going to be built, up front. Until it is finished and inspected there are risks. In the resources boom from 2004 to 2009, BHP went from \$7 to \$43. It did not jump from \$7 to \$43 in 2004. It takes time for the market to trust a company and its value. Sometimes it "Trusteth too much" and too soon.

The market overprices assets regularly. It is doing it now. This is a sentiment extreme. This is not the time to join in. Buy when others are fearful, not greedy..and all that - and there I go, quoting Warren Buffett. I hate people quoting Warren Buffett!

## DO NOT SELL YET

For those of you holding a tech stock or ten - don't sell yet. Straight up the advice has to be, trade this rally don't 'invest' in it. This is a wonderful moment for those of you holding these stocks. If I was invested in **Afterpay** (any of them) I would not be selling, but I would not be making any grand declarations either, about the long-term, about why they are worth buying. I would not be developing faith. This bubble will burst, watch it. BUT - Don't sell because these stocks have gone up a lot, wait. You never need to predict the top, just wait for the top. The day they fall 10%. That'll mark the moment. No need to do anything until that day. Enjoy the ride until then.

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## FOR THOSE THAT ARE MISSING OUT

Don't worry. APT is the stock for everyone that missed out on A2M. A2M was the stock for everyone that missed out on BKL. And so it goes on.

There is another APT on your screen, right in front of you, right now. A company with tremendous opportunity, scalability, and it is almost certainly a technology company. All you have to do is spot it.

I can see my next click bait article - "The next Afterpay" although I'll probably call it "Warren Buffett and his ten reasons for buying the next Afterpay". I'm not stupid.

Any ideas anyone?

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